

Message Text

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R 112007Z MAY 77
FM AMEMBASSY PARIS
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PASS TREASURY, FEDERAL RESERVE, COMMERCE, LABOR

E.O. 11652: N/A
TAGS: EALR, EFIN, EGEN, FR
SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 12323, APRIL 27

1. SUMMARY

WHILE THE ECONOMY CONTINUES ITS SLUGGISH PERFORMANCE,
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ONE ASPECT OF ITS NERVOUS SYSTEM, THE BOURSE, IS IN
DEEP TRAUMA AS IT PLACES ITS BETS ON THE LEGISLATIVE
ELECTIONS AND THE PROSPECTS FOR THE MAJORITY PARTIES.
AN OUTLOOK FOR IMPROVED EXPORTS, IF THE PERFORMANCE
SINCE FEBRUARY CAN BE MAINTAINED, AND THE STABILITY
OF THE FRANC IN THE EXCHANGE MARKET PROVIDE ABOUT THE
ONLY BRIGHT SPOTS IN THE GLOOM PERMEATING THE BOURSE

AND INVESTMENT GENERALLY. END SUMMARY

2. L'EXPANSION FORECASTS A FLAT TREND FOR THE ECONOMY

THE QUARTERLY FORECAST OF L'EXPANSION JUST PUBLISHED ENVISIONS A FLAT TREND FOR THE FRENCH ECONOMY THROUGH JULY AND AN INDUSTRIAL PRODUCTION ANNUAL GROWTH RATE OF ONLY 2 TO 3 PERCENT DURING THE SECOND HALF OF THIS YEAR. THIS WOULD MEAN AN ANNUAL RATE OF GROWTH OF BARELY 3 PERCENT FOR THE YEAR AS A WHOLE IN REAL TERMS. NOTING A RISE IN INVENTORY SINCE LAST NOVEMBER, A SLOWDOWN IN THE RATE OF WAGE GROWTH (2 TO 2.25 PERCENT DURING THE FIRST QUARTER, COMPARED TO 4 PERCENT LAST YEAR), A SLOWDOWN IN CONSUMPTION AND FORECASTING LITTLE, IF ANY, CHANGE IN INVESTMENT, DESPITE THE GOVERNMENT'S 11.5 BILLION FRANC PROGRAM TO ENCOURAGE INVESTMENT, THE FORECAST CONCLUDES THAT ONLY EXPORTS COULD PROVIDE A DYNAMIC ELEMENT IN THE SHORT-TERM OUTLOOK. PRICE TRENDS ARE ESTIMATED AT AN ANNUAL RATE OF BETWEEN 8 AND 9 PERCENT FOR 1977. COMMENTING THAT THE FRANC COULD COME UNDER PRESSURE IN THE FALL, L'EXPANSION ASSERTS THAT IT COULD BE DEFENDED BECAUSE IT IS UNDERVALUED AT ITS PRESENT RATE VIS A VIS OTHER MAJOR CURRENCIES AND WILL REMAIN SO THROUGH THE END OF THIS YEAR. NO EXPLANATION IS GIVEN FOR THIS ASSERTION. UNEMPLOYMENT IS LIKELY TO CONTINUE TO RISE ABOVE 1,000,000. THE TRADE BALANCE IS EXPECTED TO CONTINUE TO IMPROVE, AS IMPORTS LEVEL OFF AND EXPORTS CONTINUE UNCLASSIFIED

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THE FAIRLY SHARP RISE FIRST EVIDENT IN FEBRUARY. EXPORTS COULD GROW BY 8 TO 10 PERCENT IN VOLUME IN THE COMING MONTHS, WHILE IMPORTS PROBABLY WILL REMAIN FLAT. THUS, L'EXPANSION FORESEES A TRADE BALANCE EQUILIBRIUM DEVELOPING FAIRLY RAPIDLY DURING THE SECOND HALF OF THIS YEAR.

THIS FORECAST EXPLICITLY ASSUMES THAT THE BARRE PLAN-BIS DOES NOT AND WILL NOT REPRESENT ANY SIGNIFICANT EXPANSION OF THE ECONOMY. L'EXPANSION VIEWS BARRE PLAN-BIS AS A SET OF MEASURES DESIGNED TO SUSTAIN DEMAND ON ITS CURRENTLY FLAT COURSE AND TO LIMIT, IF POSSIBLE, A SERIOUS RISE IN UNEMPLOYMENT. IN SHORT, MEASURES TO AVOID THE PROBABILITY OF A FURTHER SLOWDOWN WHICH, IN FACT, L'EXPANSION HAD FORECAST IN ITS DECEMBER ISSUE. WHETHER OR NOT L'EXPANSION HAS DERIVED MONSIEUR BARRE'S INNERMOST MOTIVES, ITS INTERPRETATION CLEARLY IS CONSISTENT WITH THE PATTERN OF L'EXPANSION'S ECONOMIC FORECASTS

WHICH ALSO CONTINUE TO BE MORE CAUTIOUS THAN MOST,
PARTICULARLY IN TERMS OF OVERALL RATES OF GROWTH
AND INVESTMENT.

3. INSEE FOUR-MONTH SURVEY INDICATES LITTLE CHANGE
IN ECONOMIC SITUATION

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THE HIGHLIGHTS OF THE MARCH INSEE SURVEY ARE: A) A
FEEBLE GROWTH OF INDUSTRIAL PRODUCTION OF BETWEEN
1 AND 2 PERCENT FROM THE END OF NOVEMBER 1976 TO
THE END OF MARCH 1977; B) A MODERATE INCREASE IN
FOREIGN DEMAND SINCE LAST JUNE WITH A SOMEWHAT

STRONGER TREND SINCE LAST NOVEMBER; C) PRODUCTION APPEARS TO REMAIN SLIGHTLY HIGHER THAN DEMAND; D) PRODUCTION COSTS IN THE INDUSTRIAL SECTOR ROSE
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ON AVERAGE AT 0.5 PERCENT MONTHLY RATE FROM LAST NOVEMBER THROUGH THE END OF MARCH; E) INTERNAL DEMAND PROBABLY WILL BE SLIGHTLY LESS IN THE NEXT FEW MONTHS, BUT THE OUTLOOK FOR PRODUCTION IS ORIENTED TOWARD AN INCREASE, PARTLY REFLECTING THE EXPECTATIONS OF SOME RESTOCKING AND SLIGHTLY HIGHER CONSUMER DEMAND DURING THE SECOND HALF OF THIS YEAR; AND F) EMPLOYMENT HAS DIMINISHED SLIGHTLY IN INDUSTRY AND THIS TREND PROBABLY WILL CONTINUE FOR SEVERAL MONTHS.

THE DETAILS OF THE INSEE SURVEY REVEAL RELATIVELY LITTLE CHANGE IN THE OVERALL EXPECTATIONS OF FRENCH INDUSTRY. THIS SURVEY PREDATES BARRE PLAN-BIS WHICH COULD INFLUENCE EXPECTATIONS SOMEWHAT. OPINIONS ON THE LEVEL OF STOCKS IN MARCH SHOWED A CONSIDERABLE CHANGE SINCE LAST NOVEMBER, REFLECTING A STRONG SHIFT TO THE VIEW THAT INVENTORIES ARE LARGER THAN NORMAL FOR ALL SECTORS. THIS SITUATION IS REFLECTED IN THE GENERAL EXPECTATIONS OF RELATIVE SLOW ORDERS IN THE NEXT FEW MONTHS AND RESTOCKING DURING THE SEASONALLY STRONG RETAIL TRADE THAT FOLLOWS THE VACATION PERIOD.

4. FINANCE MINISTER-DELEGATE PRESS CONFERENCE

DURING A PRESS CONFERENCE MAY 3, THE FINANCE MINISTER-DELEGATE, ROBERT BOULIN, IN RESPONSE TO QUESTIONS STATED THAT FRENCH FOREIGN BORROWING, EXCLUDING SHORT-TERM, HAS AMOUNTED TO 45 BILLION FRANCS SINCE 1974 OF WHICH 35 BILLION HAS A COUNTERPART IN EXPORT CREDITS, LEAVING A NET INCREASE OF 10 BILLION FRANCS IN MEDIUM AND LONG-TERM DEBT. THE MINISTER ALSO STATED THAT THE DISCOUNT RATE OF THE BANK OF FRANCE WILL NOT BE LOWERED IN THE NEAR FUTURE; WARNED THAT ENTERPRISES MUST NOT INCREASE WAGES MORE THAN PERMITTED OR RECOMMENDED IN THE
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BARRE PLAN UNDER THREAT OF LOSING GOVERNMENT CONTRACTS: AND FINALLY CONFIRMED THAT THE 6 BILLION FRANC LOAN UNDER BARRE PLAN-BIS, WHICH IS TIED TO A

EUROPEAN CURRENCY BASKET WITH CERTAIN FISCAL BENEFITS (PREVIOUSLY REPORTED) WILL BE ISSUED ON MAY 29 AT AN INTEREST RATE OF 8.8 PERCENT.

5. THE BOURSE FALLS AGAIN AND AGAIN AND AGAIN

INTERPRETING AN INTERVIEW IN L'EXPRESS BY PRESIDENT GISCARD AS FURTHER EVIDENCE OF CONTINUING DISARRAY IN THE RANKS OF THE MAJORITY PARTIES, THE BOURSE EXPERIENCED YET ANOTHER SHARP DROP YESTERDAY.

THE FINANCIAL PRESS DESCRIBED IT AS A " FREE FALL. " AS REPORTED EARLIER, THE PRICE EARNINGS RATIOS OF THE SHARES OF MOST MAJOR FRENCH COMPANIES NOW OFFER A BETTER RATE OF RETURN AT CURRENT DEPRESSED STOCK PRICES THAN THE MEDIUM-TERM BONDS OF THOSE SAME COMPANIES. YET THE DECLINE CONTINUES, DESPITE BARGAIN BASEMENT PRICES FOR THE SHARES OF MOST OF FRANCE'S LEADING COMPANIES. THIS CLEARLY REFLECTS INVESTOR EXPECTATIONS OF POLITICAL DEVELOPMENTS.

THE CAPITALIZATION OF FRENCH STOCKS HAS FALLEN FROM 134 BILLION FRANCS AT THE END OF LAST YEAR TO 113 BILLION FRANCS AS OF THIS WEEK, AND THIS FOLLOWING A 17 PERCENT OVERALL DECLINE DURING 1976. CONTINUATION OF THIS STEEP DECLINE COULD CAUSE SERIOUS PROBLEMS FOR THE CONTINGENCY FUNDS OF VARIOUS ORGANIZATIONS, NOTABLY INSURANCE COMPANIES.

6. FIGARO-SOFRES PUBLIC OPINION POLL FOR MAY SHOWS SIGNIFICANT CHANGES

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THE APRIL FIGARO-SOFRES POLL REPORTS A SIGNIFICANT CHANGE IN PRIORITY FOR ECONOMIC POLICY. UNEMPLOYMENT HAS NOW REPLACED INFLATION AS THE MAJOR CONCERN AND BY

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R 112007Z MAY 77
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A DECISIVE MARGIN 46 PERCENT OVER 32 PERCENT, WHEREAS
LAST MONTH THE FIGURES WERE 39 PERCENT AND 37 PERCENT
RESPECTIVELY. UNTIL FEBRUARY, THIS POLL HAD
CONSISTENTLY REPORTED INFLATION AS THE PRIMARY
CONCERN AND BY A MARGIN ALMOST AS LARGE AS
THE CURRENT SPREAD BETWEEN UNEMPLOYMENT AND INFLATION.
THUS, AS MEASURED BY THIS POLL, ATTITUDES ABOUT
UNEMPLOYMENT AND INFLATION HAVE BEEN REVERSED DURING
THE PAST FEW MONTHS. AT THE SAME TIME, THE ATTITUDE
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ABOUT THE EFFICIENCY OF THE GOF'S EFFORTS TO CONTROL
INFLATION DETERIORATED FURTHER WITH ONLY 15 PERCENT
RESPONDING THAT THE GOF'S EFFORTS WERE VERY EFFICIENT
OR SUFFICIENTLY EFFICIENT, COMPARED TO 24 PERCENT IN
APRIL.

7. POSSIBLE DECLINE AND LEVELING-OFF OF SAVINGS

THE NATIONWIDE SYSTEMS OF SAVINGS INSTITUTIONS WHICH

MUST REDEPOSIT WITH THE CAISSE DES DEPOTS AND WHICH ACCOUNT FOR ABOUT 9 PERCENT OF MEDIUM AND LONG-TERM FINANCING IN FRANCE REGISTERED A SHARP DROP IN THEIR SURPLUS OF DEPOSITS OVER WITHDRAWALS DURING THE FIRST QUARTER OF THIS YEAR. THE EXCESS OF DEPOSITS OVER WITHDRAWALS WAS 8.9 BILLION FRANCS DURING THE FIRST QUARTER OF 1977, COMPARED WITH 11.6 BILLION FRANCS DURING THE SAME PERIOD OF LAST YEAR. WHILE THIS CHANGE MAY OR MAY NOT REFLECT A GENERAL SLOWDOWN IN THE SAVINGS RATE, IT COULD BE SIGNIFICANT BECAUSE SAVINGS INSTITUTIONS IN THE CAISSE DES DEPOTS SYSTEM RELY ALMOST ENTIRELY ON HOUSEHOLD SAVINGS, TYPICALLY IN RELATIVELY SMALL INDIVIDUAL ACCOUNTS. PRELIMINARY DATA FOR APRIL SUGGEST A LEVELING-OFF, COMPARED WITH THE POSITIONS OF APRIL LAST YEAR.

8. BANK OF FRANCE CONFIRMS POOR OUTLOOK FOR CONSTRUCTION

PUTTING AN EXCLAMATION POINT TO OUR EARLIER REPORTS OF A DEPRESSED CONSTRUCTION INDUSTRY, A RECENT BANK OF FRANCE REPORT CONCLUDES: " THE PRESENT RECESSION IN CONSTRUCTION IS LIKELY TO PERSIST IN 1977", AND " IT COULD EVEN WORSEN. IN 1976 RESIDENTIAL CONSTRUCTION CONTRACTED BY 4.7 PERCENT IN REAL TERMS OVER 1975, AND BY 11.5 PERCENT IN COMPARISON WITH 1973, THE LAST BOOM YEAR FOR CONSTRUCTION IN FRANCE.

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THIS YEAR RESIDENTIAL CONSTRUCTION MAY NOT EXCEED 460,000 UNITS, COMPARED TO 492,000 LAST YEAR. ONLY PUBLIC SECTOR CONSTRUCTION, LARGELY ASSOCIATED WITH TELECOMMUNICATIONS, NUCLEAR, AND OTHER LARGE-SCALE PUBLIC WORKS IS EXPECTED TO SHOW POSITIVE GROWTH. SINCE CONSTRUCTION IN FRANCE USUALLY IS THE LARGEST SINGLE INVESTMENT ITEM (SLIGHTLY LARGER THAN INVESTMENT IN INDUSTRY, SERVICES AND COMMERCE COMBINED) AND AS RESIDENTIAL CONSTRUCTION USUALLY ACCOUNTS FOR ABOUT TWO-THIRDS OF TOTAL CONSTRUCTION, THE RECESSION IN THIS INDUSTRY IS ONE OF THE MAJOR REASONS FOR THE FLAT TREND OF INVESTMENT EVIDENT IN THE FRENCH ECONOMY SINCE 1974.

9. FRENCH DIRECT INVESTMENT OVERSEAS

ACCORDING TO A RECENT INSEE REPORT, A GOOD HALF OF TOTAL FRENCH INVESTMENT ABROAD IS IN THE PETROLEUM INDUSTRY, REPRESENTING 2 BILLION FRANCS OUT OF A TOTAL OF 3.9 BILLION FRANCS IN 1973 AND 2.9 BILLION FRANCS OUT OF A TOTAL OF 5.6 BILLION FRANCS IN 1974. IN

1975, PETROLEUM INVESTMENTS ABROAD ROSE TO 5 BILLION FRANCS OUT OF A TOTAL FOREIGN INVESTMENT OF 7.8 BILLION FRANCS. THIS TREND IS EXPECTED TO CONTINUE. INVESTMENTS IN NON-PETROLEUM-BASED INDUSTRIES HAVE BEEN DOMINATED BY THE CHEMICAL, MACHINERY AND ELECTRONIC INDUSTRIES. FROM A GEOGRAPHICAL VIEWPOINT, THROUGH 1975, FRENCH FOREIGN INVESTMENTS HAVE GONE 50 PERCENT TO EUROPE, 10 PERCENT TO THE UNITED STATES, AND 40 PERCENT ELSEWHERE. FRENCH INVESTMENT HAS BEEN CONCENTRATED (85 PERCENT) IN COMPANIES ALREADY EXISTING AND FOR THE MOST PART DESIGNED TO GAIN CONTROL OR A SIGNIFICANT SHARE OF CONTROL. IN 8 PERCENT OF THE CASES, INVESTMENT IS IN A NEW ENTERPRISE, WHILE 2 PERCENT TAKES THE FORM OF LOANS.

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MEANWHILE, FOREIGN INVESTMENT IN FRANCE HAS DECLINED SHARPLY, FROM 6.3 BILLION FRANCS IN 1974 TO 4.3 BILLION FRANCS IN 1975 AND 2.3 BILLION FRANCS IN 1976.

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THUS IN 1976, FRANCE BECAME FOR THE FIRST TIME
SINCE WORLD WAR II A NET EXPORTER OF INVESTMENT
CAPITAL, AND THIS TREND HAS CONTINUED THIS YEAR.
DETAILS OF THE INSEE FOREIGN INVESTMENT STUDY
WILL BE REPORTED SEPARATELY.

10. MORE FRENCH FRANC BOND ISSUES DESIGNED TO
ATTRACT FOREIGN INVESTORS

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THE LARGE FINANCIAL AND INSURANCE GROUP, FONCIA
CREDIT, HAS ANNOUNCED A FRENCH FRANC BOND ISSUE
OF 250 MILLION FRANCS AT 11.3 PERCENT WITH A
TEN-YEAR TERM. COFIROUTE, THE FINANCIAL AND
INDUSTRIAL COMPANY OF AUTOROUTES, HAS ISSUED A
15-YEAR BOND DENOMINATED IN FRENCH FRANCS AT
11.07 PERCENT WITH THE GUARANTEE OF THE GOF.
THESE ISSUES ARE SIMILAR TO THOSE OF CREDIT
LYONNAIS, UNION BANCAIRE (PREVIOUSLY REPORTED) AND
OTHER QUASI-GOVERNMENTAL COMPANIES. ACCORDING TO
MARKET SOURCES THEY HAVE PROVEN ATTRACTIVE TO
FOREIGN INVESTORS. A RATE OF 11 PERCENT OR
SLIGHTLY MORE BY WELL KNOWN BANKS OR ENTITIES WITH
GOF GUARANTEES IS A VERY COMPETITIVE RATE COMBINED
WITH WELL ABOVE AVERAGE SECURITY. THE MAIN SOURCE
OF FOREIGN INTEREST IN THESE ISSUES ARE SWISS
PORTFOLIO MANAGERS HANDLING MIDDLE-EASTERN ACCOUNTS.

11. CONSUMER PRICE INDEX RISES

THE CONSUMER PRICE INDEX ROSE 0.9 PERCENT IN MARCH.
THIS INCREASE WAS PACED BY A 1.2 PERCENT RISE IN
FOOD, WHILE MANUFACTURED GOODS AND SERVICES ROSE BY
0.8 AND 0.7 PERCENT RESPECTIVELY. IN PRESENTING THESE
RESULTS, FINANCE MINISTER BOULIN SAID, "THE INCREASE IN
MARCH WAS STRONG, AND WE ALREADY KNOW THAT IT WILL BE
THE SAME IN APRIL." AFTER NOTING THAT RISING PRICES

OF IMPORTS HAVE CAUSED A GENERAL RISE IN PRICES OF
0.5 PERCENT IN THREE MONTHS, THE MINISTER POINTED
OUT THAT ON A QUARTERLY BASIS INFLATION HAS SLOWED
DOWN FROM 2.8 PERCENT IN THE THIRD QUARTER OF 1976, TO
2.1 PERCENT IN THE FINAL QUARTER, AND 1.9 PERCENT
DURING THE FIRST QUARTER OF 1977. HOWEVER, THE RATE
OF PRICE INCREASE, MARCH 1977 OVER MARCH 1976, IS
9.1 PERCENT, AND GIVEN CURRENT TRENDS IT IS
DIFFICULT TO SEE HOW THE YEAR-OVER-YEAR RATE OF
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PRICE INCREASE WILL BE LESS THAN 9 PERCENT.

12. MONEY SUPPLY GROWTH REMAINS RAPID IN FEBRUARY

IN FEBRUARY M-2 SEASONALLY ADJUSTED ROSE BY 1.4
PERCENT, ACCORDING TO PRESS REPORTS. SEASONALLY
ADJUSTED M-2 IN FEBRUARY WAS 453.5 BILLION FRANCS;
QUASI-MONEY 424.6 BILLION FRANCS, FOR A TOTAL MASSE
MONETAIRE OF 879.2, ACCORDING TO INFORMATION
RECEIVED BY TELEPHONE FROM THE NATIONAL CREDIT
COUNCIL. FINAL FIGURES HAVE NOT BEEN PUBLISHED.
NONSEASONALLY ADJUSTED M-2 WAS 439.4 BILLION
FRANCS AND QUASI-MONEY WAS 425.7 BILLION FRANCS FOR
A TOTAL OF 865.1 BILLION FRANCS IN FEBRUARY.
COMPLETE FIGURES FOR THE COUNTERPARTS OF THE MASSE
MONETAIRE ARE NOT YET AVAILABLE. SEASONALLY
ADJUSTED CREDITS TO THE ECONOMY ROSE BY 1.8
PERCENT. GOLD AND FOREIGN EXCHANGE REMAINED

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PRACTICALLY UNCHANGED. TREASURY OPERATIONS
REPORTEDLY ROSE APPRECIABLY ON A SEASONALLY
ADJUSTED BASIS, WHILE REMAINING VIRTUALLY
UNCHANGED ON A NONSEASONALLY ADJUSTED BASIS.
REMAINING DETAILS ON THE MONEY SUPPLY WILL
BE REPORTED WHEN AVAILABLE.

13. OTHER REPORTS SUBMITTED DURING THE PERIOD

TELEGRAMS

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13415 PARIS CLUB MEETING ON NORTH KOREAN DEBT 5/6
13380 ANNUAL MEETING OF THE IDB 5/6
13285 HOTEL RESERVATIONS/SYVRUD 5/5
12759 FRENCH VALUE-ADDED TAX ON ASCAP & BMI 5/2
12447 PARIS FOREX MARKET 4/28
12322 BARRE PLAN-BIS
11625 REPORT TO CONGRESS ON SIGNIFICANT USG
CLAIMS AGAINST FOREIGN GOVERNMENTS 4/20

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